



EFRAG Comment Letter

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

24 February 2022

Dear Mr Barckow,

Re: Exposure Draft *Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft *ED/2021/7 Subsidiaries without Public Accountability: Disclosures*, issued by the IASB on 26 July 2021 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG welcomes the IASB's efforts in developing reduced disclosure requirements for subsidiaries without public accountability. This project responds to a demand from respondents to the IASB's 2015 Agenda Consultation to undertake a project which would allow subsidiaries without public accountability to use the recognition and measurement requirements of IFRS Standards with less onerous disclosure requirements.

Summary of EFRAG's views on the ED

In general, EFRAG agrees with the proposed objective of specifying reduced disclosure requirements for the financial statements of subsidiaries that are in the scope of the project and permitting the use of the reduced disclosures together with the recognition, measurement and presentation requirements in IFRS Standards.

Scope

EFRAG recognises the benefits of and the support from its constituents for the IASB's proposals to permit eligible subsidiaries to apply IFRS Standards with reduced disclosure requirements.

European constituents asked for the IASB to consider widening the scope but they provided different suggestions, such as including (i) associates, joint ventures and joint operations; (ii) non-listed insurance companies that are subsidiaries; (iii) non-listed banks that are subsidiaries; (iv) ultimate parent entities for their separate financial statements; or (v) all entities without public accountability.

EFRAG acknowledges that there are potential benefits of a broader scope, nonetheless EFRAG also recognises that there is no consensus on whether and to what extent the scope should be widened. Therefore, any decision on the extension of the scope is likely to be challenging and controversial.

Considering this, EFRAG accepts that the IASB should proceed with its project and that a final IFRS Standard should be available to subsidiaries on an optional basis.

Nonetheless, EFRAG recommends that, before the issuance of a new IFRS Standard on reduced disclosures, the IASB clarifies the concept of holding assets in a fiduciary capacity (as insurers, for example, do not in general regard themselves as holding assets

in a fiduciary capacity) and, therefore, explores the applicability of the ED to the insurance sector.

EFRAG also believes that the IASB should, in parallel to the finalisation of this project, assess the possibility of further extending the proposed benefits to other type of entities (associates, joint ventures, joint operations, non-listed banks that are subsidiaries, separate financial statements of ultimate parent entities and all entities without public accountability).

Furthermore, EFRAG notes that the *IFRS for SMEs* Standard is not endorsed in the EU and that defining the scope of application of a reduced disclosure standard is normally a critical legislative decision. In this context, the IASB's approach to the scope would provide a working environment for the standard, rather than a legal scope of application.

Finally, EFRAG highlights that the IASB's proposals in this project are likely to put pressure on the definition of 'available for public use' and 'public accountability'. Considering this, EFRAG would welcome further application guidance in this area.

Developing the proposed disclosure requirements

EFRAG generally agrees with the IASB's approach of using the *IFRS for SMEs* Standard as the starting point. EFRAG welcomes the IASB's proposal to consider the principles in paragraph BC157 of the *IFRS for SMEs* Standard when there is a need to tailor the disclosure requirements.

However, EFRAG considers that the key principles proposed by the IASB in paragraph BC33 of the Basis for Conclusions should encompass cost-benefit considerations.

EFRAG also highlights the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 when there are no recognition and measurement differences between *IFRS for SMEs* and IFRS Standards but there are differences in timing between the two.

Exceptions to the approach

EFRAG is concerned that in some cases the IASB's reasoning for making the exceptions is not entirely clear, making them complex to understand. In addition, EFRAG is also concerned that the list of exceptions in paragraph BC40 of the Basis for Conclusion seems to be incomplete.

In addition, EFRAG suggests two additional aspects that the IASB should consider: (i) the interaction between its Exposure Draft on reduced disclosures for subsidiaries (a project where the emphasis is put on having a list of simplified disclosures for subsidiaries) with the Exposure Draft *Disclosure Requirements in IFRS Standards - A Pilot Approach* (where the emphasis is put on defining the disclosure objectives and not on the list of disclosures) and (ii) elaborating from a conceptual perspective how the notion of public accountability impacts the level of disclosures needed.

Disclosure requirements about transition to other IFRS Standards

EFRAG welcomes that disclosure requirements for transition provisions of new and amended IFRS Standards would have to be applied by subsidiaries without public accountability that elect to apply the reduced-disclosure IFRS Standard.

EFRAG also welcomes paragraph 5 of the ED which clearly states that any disclosure requirements specified in a new or amended IFRS Standard about the entity's transition to that Standard would remain applicable, even if these disclosures are not inside the reduced-disclosure IFRS Standard itself.

Disclosure requirements about insurance contracts

EFRAG acknowledges the IASB's arguments included in paragraph BC64 of the Basis for Conclusions for not proposing the reduced disclosure requirements for insurance contracts. However, EFRAG considers that they are not compelling and that the

application a full set of disclosure requirements for IFRS 17 *Insurance Contracts* might result in undue costs and efforts and bring no or little benefit to the users of financial statements.

Therefore, EFRAG recommends the IASB to consider developing a reduced set of disclosure requirements for IFRS 17 and to engage in the outreach with the constituents to determine which disclosure requirements could be reduced before issuing a final IFRS Standard.

Interaction with IFRS 1 First-time Adoption of International Financial Reporting Standards

EFRAG agrees with the IASB's approach that when applying IFRS Standards for the first time and simultaneously electing to apply the reduced-disclosure IFRS Standard, a subsidiary should apply the disclosure requirements proposed in the ED. EFRAG also welcomes the IASB's clarification in paragraph 13 of the ED on the interaction with IFRS 1.

Nonetheless, it may be useful to clarify in the main body of the ED that the use of the reduced disclosure IFRS Standard is not a change in an accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The proposed disclosure requirements

EFRAG highlights that the assessment of users' needs in terms of disclosures (i.e., whether the IASB's proposed disclosures are sufficient) is difficult and subjective.

Nonetheless, EFRAG suggests that the IASB adds a number of disclosures identified in Appendix 1 as they are relevant for users of financial statements and would not increase significantly the costs for preparers.

Structure of the draft Standard

EFRAG supports the IASB's approach and highlights the importance of having an independent and stand-alone reduced-disclosure IFRS Standard that focuses on the disclosure needs of subsidiaries without public accountability. That is, a reduced-disclosure IFRS Standard that clearly identifies all the disclosure requirements that subsidiaries without public accountability need to comply so that it is simple for them to apply.

However, EFRAG acknowledges that there is support for incorporating all disclosure requirements (footnotes and Appendix A) in the main body of the Exposure Draft. The IASB should further consider the feasibility of such an approach.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix 1.

An overview of the use of options provided in the IAS Regulation (1606/2002) in the EU as of December 2018 is included in Appendix 2.

If you would like to discuss our comments further, please do not hesitate to contact Kathrin Schoene, Filipe Camilo Alves, Galina Borisova or me.

Yours sincerely,



Jean-Paul Gauzès
President of the EFRAG Board

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Appendix 1 - EFRAG's responses to the questions raised in the ED

Question 1 - Objective

Question 1

Paragraph 1 of the draft Standard proposes that the objective of the draft Standard *Subsidiaries without Public Accountability: Disclosures* is to permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards.

Do you agree with the objective of the draft Standard? Why or why not? If not, what objective would you suggest and why?

EFRAG's response

Introduction

- 1 EFRAG welcomes the IASB's efforts in developing reduced disclosure requirements for subsidiaries within the scope of the project. This project responds to a demand from respondents to the IASB 2015 Agenda Consultation to undertake a project which would allow subsidiaries to use the recognition and measurement requirements of IFRS Standards with less onerous disclosure requirements.
- 2 The IASB's proposal would have the benefit of reducing costs for eligible subsidiaries that prepare general purpose financial statements under IFRS Standards, while granting adequate information to users of those financial statements.
- 3 EFRAG recognises the benefits and the support for the IASB's proposals for eligible subsidiaries, which many consider should be further extended to other types of entities (see EFRAG's response to Question 2 *Scope* below).

Proposed objective

- 4 EFRAG agrees with the proposed objective of specifying disclosure requirements for the financial statements of subsidiaries within the scope of the project.
- 5 EFRAG highlights that many European countries currently permit or require the use of IFRS in the annual accounts and/or consolidated financial statements of non-publicly traded (please see appendix 2 – *Overview of the use of options provided in the IAS Regulation*). Therefore, the population of European subsidiaries that may benefit from this project is potentially significant.
- 6 Still, EFRAG highlights that in the European Union, the number of entities potentially impacted by this proposal and the consequent usefulness of the IASB's project, would differ largely between EU Member States and would depend on the use of the option included in the Regulation (EC) No 1606/2002. The impact is expected to be, in principle, limited in those countries that do not require nor permit the use of IFRS Standards for the preparation of the annual financial statements (large multinational groups may still benefit from an IFRS Standard with reduced disclosure requirements for subsidiaries, even when such an IFRS Standard would primarily be applicable to the financial statements of their foreign subsidiaries).
- 7 In addition, there are jurisdictions that currently use the *IFRS for SMEs* Standard, including their disclosures, as a point of reference for local accounting requirements (e.g., Sweden). In such jurisdictions, the transition to IFRS Standards for entities that would adopt this (draft) Standard would be easier.

Structure of the ED and the objective of the project

- 8 EFRAG highlights the importance of having a stand-alone, well-structured and simplified set of disclosure requirements that are easy to apply by subsidiaries without public accountability. That is, the importance of having a structure (of the draft Standard) that supports the IASB's proposed objective of permitting eligible subsidiaries to apply **all** the disclosure requirements in the ED (that are well identified) and the recognition, measurement and presentation requirements in IFRS Standards.

Question 2 - Scope

Question 2

Paragraphs 6–8 of the draft Standard set out the proposed scope. Paragraphs BC12–BC22 of the Basis for Conclusions explain the IASB's reasons for that proposal.

Do you agree with the proposed scope? Why or why not? If not, what approach would you suggest and why?

EFRAG's response

Scope of the project as proposed by the IASB

- 9 EFRAG recognises the benefits and the support from its constituents for the IASB's proposals to permit subsidiaries to apply IFRS Standards with reduced disclosure requirements.
- 10 Many European constituents asked for the IASB to consider widening the scope but they provided different suggestions, such as including (i) associates, joint ventures and joint operations; (ii) non-listed insurance companies that are subsidiaries; (iii) non-listed banks that are subsidiaries; (iv) ultimate parent entities for their separate financial statements; or (v) all entities without public accountability.
- 11 EFRAG acknowledges that there are potential benefits of a broader scope. However, a broader scope would result in a number of challenges, mainly deriving from the need to provide sufficient disclosures for users and to consider whether the needs of users of financial statements of smaller and non-listed entities are the same across the different categories of users, including when the entity is not a subsidiary.
- 12 EFRAG also recognises that, at this stage, there is no consensus on whether, and to what extent, the scope should be widened. Therefore, any decision on the extension of the scope is likely to be challenging and controversial.
- 13 Considering this, and subject to the recommendation to explore the applicability of the ED to the insurance sector (see below), EFRAG accepts that the IASB should proceed with its project and that a final IFRS Standard should be available to subsidiaries without public accountability on an optional basis (i.e., the scope should not be narrower).

Entities that hold assets in a fiduciary capacity and insurance subsidiaries

- 14 EFRAG notes that a key concept in the definition of the scope is 'holding assets in a fiduciary capacity' and considers that it may raise interpretation issues.
- 15 As an illustration, while the IASB considers that most insurance entities hold assets in a fiduciary capacity, except when they are captive insurers, feedback from EFRAG's consultation shows that insurers do not, in general, regard themselves as holding assets in a fiduciary capacity, as they typically invest policyholders' premiums for asset-liability-management purposes on their own right.

- 16 Furthermore, they note that policyholders are not primary users of the financial statements, as the main protection for policyholders is provided by the regulatory frameworks being set by specific regulatory legislations in the local jurisdictions (e.g., Solvency II in the EU).
- 17 Therefore, EFRAG recommends that, before the issuance of a new IFRS Standard on reduced disclosures, the IASB:
 - (a) clarifies the concept of holding assets in a fiduciary capacity; and
 - (b) explores the applicability of the ED to the insurance sector.

Broadening the scope in parallel with this project

- 18 Considering the above, EFRAG also believes that the IASB should, in parallel with the finalisation of this project, assess the possibility of extending the proposed benefits to other type of entities.
- 19 The IASB should in particular consider whether the reduced disclosures IFRS Standard would provide sufficient and relevant information to users of financial statements (having in mind the needs of users of financial statements of smaller and non-listed entities) of the reporting entities mentioned above: associates, joint ventures, joint operations, non-listed banks that are subsidiaries, separate financial statements of ultimate parent entities and all entities without public accountability.
- 20 EFRAG also considers that an enlargement of the scope should be accompanied by a comprehensive impact assessment, which would consider: the benefits of a wider use of the recognition and measurement requirements in full IFRS Standards, the costs for the relevant users in terms of loss of information, the potential lower use of full disclosures under IFRS Standards, the quality of application of IFRS Standards.
- 21 Finally, EFRAG notes that the *IFRS for SMEs* Standard is not endorsed in the EU and that defining the scope of application of a reduced disclosures standard is normally a critical legislative decision that a jurisdiction has to take for its entities. In this context, the IASB's approach to the scope would provide a working environment for the standard, rather than a legal scope of application.

Need to clarify the notion of public accountability

- 22 Alongside the concerns expressed above about the term 'fiduciary capacity', EFRAG expresses concerns that the IASB uses the concept 'public accountability' when defining the scope of this project. This is because, its meaning is not often entirely clear for stakeholders (these concepts are not currently being used in IFRS Standards available for use in the EU) and it could be in conflict with existing legal terms used in different EU Member States.
- 23 For example, National Standard-Setters have expressed concerns that the notion of public accountability is different from the notion of Public Interest Entities, a similar term used in the European Union accounting law. Therefore, the IASB's proposals in this project are likely to also put pressure on the definition of 'public accountability'. Considering this, EFRAG would welcome further application guidance in this area.

Need to clarify the notion of available for public use

- 24 In the ED, the IASB uses the concept 'available for public use' (as in IFRS 10 *Consolidated Financial Statements*) when defining the scope of the ED.
- 25 Some European jurisdictions allow the use of IFRS Standards in the annual and consolidated financial statements of non-publicly traded companies. These financial statements are often 'available for public use' as they have to be officially filed (e.g., commercial register) and published in an official journal or website. However, in

cases where consolidated financial statements of the parent are not available for public use, its subsidiaries would not be able to apply the reduced disclosure requirements.

- 26 Therefore, the IASB's proposals in this project are likely to put pressure on the definition of 'available for public use'. Considering this, EFRAG would welcome further application guidance in this area.

Electing to apply the IASBs proposals

- 27 EFRAG welcomes that the proposed disclosure requirements would be optional and entities could apply or revoke them at any time, electing to prepare a full set of IFRS disclosures.
- 28 In particular, EFRAG welcomes the IASB's clarification in paragraph 11 of the ED that in the first financial statements in which a subsidiary ceases to apply the reduced-disclosure IFRS Standard and applies IFRS Standards with full disclosures, a subsidiary without public accountability should be required to provide comparatives for the disclosures reported in the current period's financial statements (i.e. comparatives with full disclosures from IFRS Standards, even if not included in the previous years' financial statements).
- 29 Finally, EFRAG considers that it is not entirely clear whether a subsidiary without public accountability that prepares consolidated financial statements (i.e., it is also a parent) and separate financial statements can elect to use the reduced disclosures IFRS Standard in both of its financial statements if one or more (but not all) of its subsidiaries have public accountability. For example, it is not clear if such a subsidiary can elect to use the draft Standard in its separate financial statements (where subsidiaries are presented as investments) but not in its consolidated financial statements (where subsidiaries are consolidated).

Question 3 - Developing the proposed disclosure requirements

Question 3

Paragraphs BC23–BC39 of the Basis for Conclusions explain the IASB's reasons for its approach to developing the proposed disclosure requirements.

Do you agree with that approach? Why or why not? If not, what approach would you suggest and why?

EFRAG's response

Using IFRS for SMEs as the starting point

- 30 EFRAG generally agrees with the IASB's approach of using the *IFRS for SMEs* Standard as the starting point.
- 31 EFRAG acknowledges the arguments provided in paragraph BC4 of the Basis for Conclusions that using *IFRS for SMEs* as the starting point for developing the disclosure requirements in the reduced-disclosure IFRS Standard, gives the IASB assurance that the disclosure requirements of the *IFRS for SMEs* are sufficient to meet the needs of users of subsidiaries without public accountability (users' needs) in the absence of recognition and measurement differences. Such an approach also has the benefit of minimising the work that stakeholders and the IASB need to do.

Principles for tailoring the disclosure requirements in the IFRS for SMEs

- 32 EFRAG welcomes the IASB's proposal to consider the principles in paragraph BC157 of *IFRS for SMEs* when there is a need to tailor the disclosure requirements.

- 33 However, EFRAG considers that the key principles proposed by the IASB in paragraph BC33 of the Basis for Conclusions should encompass cost-benefit considerations, including reduction of costs for preparers, which is one of the main objectives of the project. The IASB already refers to this in paragraph BC29 of the Basis for Conclusions about “*users’ needs and cost–benefits*”. This should be better reflected in the principles used by the IASB’s when the recognition and measurement requirements differ between the *IFRS for SMEs* Standard and IFRS Standards.
- 34 EFRAG also highlights the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 when there are no recognition and measurement differences between *IFRS for SMEs* and IFRS Standards but there are differences in timing of update between the two. More specifically, the risk of increasing the number of exceptions and inconsistencies as only some, but not all, of those recent improvements to disclosure requirements in IFRS Standards are included in the ED. In addition, when a new amendment to an IFRS Standard is issued in the future, it is possible that some, but not all, improvements related to that IFRS Standard have been incorporated in the reduced-disclosure IFRS Standard.
- 35 A reasonable alternative approach to developing reduced disclosure requirements could have been starting with the disclosure requirements in IFRS Standards and tailoring these disclosure requirements to the specific information needs of the users of financial statements of non-publicly accountable subsidiaries.

Disclosure requirements not included in other Standards

- 36 This proposed draft standard should not add new disclosure requirements that are not included in the *IFRS for SMEs* Standard or IFRS Standards. It is our understanding that paragraph 25 (a) of the ED introduces a new disclosure requirement that is not required according to IFRS 1. Although such disclosures may be useful, the IASB’s approach seems to result in having subsidiaries being required to provide more disclosures than when applying full IFRS Standards. Entities applying the proposals should be able to simply reduce its disclosures.

Other comments

- 37 In terms of cut-off date, the IASB should proceed with caution in regard to including the exposure drafts published by the IASB as of 1 January 2021 (e.g., IASB’s Exposure Draft *ED/2020/4 Lease Liability in a Sale and Leaseback*) in its consultation document. In particular, there is the risk of double consultation on the same topic, not reflecting the IASB’s latest tentative decisions on a project and reflecting tentative decisions that might be reversed in the future.
- 38 Finally, EFRAG welcomes that the IASB will consider proposing amendments to the draft Standard whenever it publishes an exposure draft of a new or amended IFRS Standard. This approach avoids unintended consequences, such as a measurement and/or recognition mismatch (from an early application of a new IFRS Standard) and would not delay the benefit of any improvements to other IFRS Standards.

Question 4 - Exceptions to the approach

Question 4

Paragraphs BC40–BC52 of the Basis for Conclusions explain the IASB’s reasons for the exceptions to its approach to developing the proposed disclosure requirements. Exceptions (other than paragraph 130 of the draft Standard) relate to:

- disclosure objectives (paragraph BC41);

- investment entities (paragraphs BC42–BC45);
 - changes in liabilities from financing activities (paragraph BC46);
 - exploration for and evaluation of mineral resources (paragraphs BC47–BC49);
 - defined benefit obligations (paragraph BC50);
 - improvements to disclosure requirements in IFRS Standards (paragraph BC51); and
 - additional disclosure requirements in the *IFRS for SMEs* Standard (paragraph BC52).
- (a) Do you agree with the exceptions? Why or why not? If not, which exceptions do you disagree with and why? Do you have suggestions for any other exceptions? If so, what suggestions do you have and why should those exceptions be made?
- (b) Paragraph 130 of the draft Standard proposes that entities disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The proposed requirement is a simplified version of the requirements in paragraphs 44A–44E of IAS 7 *Statement of Cash Flows*.
- (i) Would the information an eligible subsidiary reports in its financial statements applying paragraph 130 of the draft Standard differ from information it reports to its parent (as required by paragraphs 44A–44E of IFRS 7) so that its parent can prepare consolidated financial statements? If so, in what respect?
 - (ii) In your experience, to satisfy paragraphs 44A–44E of IAS 7, do consolidated financial statements regularly include a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities?

EFRAG's response

IASB's proposed exceptions

- 39 In general, EFRAG welcomes and agrees with the exceptions provided by the IASB.
- 40 EFRAG acknowledges the challenges of this project and that specific exceptions may be needed to improve relevance or reduce costs for preparers. EFRAG also welcomes that the IASB has included in the Basis for Conclusions a section explaining those exceptions.
- 41 However, EFRAG is concerned that in some cases the IASB's reasoning for making the exceptions is not entirely clear, making them complex to understand. In particular, EFRAG considers that it is not always entirely clear:
- (a) to which principle the exception relates to. For example, when considering the exclusion of disclosure objectives, it is not entirely clear whether this is an exception to the principle of tailoring the *IFRS for SMEs* when there is a recognition or measurement difference or an exception to the principle described in BC157 of the Basis for Conclusions of *IFRS for SMEs*, or other;
 - (b) whether and when omitted topics generate recognition and measurement differences. For example, when discussing exploration for and evaluation of mineral resources, the IASB states that this is an omitted topic in IFRS for SMEs but seems to assume that the difference in disclosure requirements is not due to a recognition or measurement difference. This is because the IASB refers to the addition of some paragraphs from IFRS 6 as an exception to the principle of not tailoring the *IFRS for SMEs* when there is no recognition or measurement difference; and
 - (c) why in some cases recent improvements to the disclosure requirements in IFRS Standards have been considered, while others not, which raises the risk of having inconsistencies.

- 42 In addition, EFRAG is also concerned that the list of exceptions in paragraph BC40 of the Basis for Conclusion seems to be incomplete. For example, the IASB's reduced-disclosure proposals:
- (a) included IAS 8 with no tailoring, which is an exception to the principle of not tailoring the *IFRS for SMEs* when there are no measurement and recognition differences; and
 - (b) refers to disclosure requirements in IFRS 17 instead of adapting them, which is an exception to the principle of tailoring the *IFRS for SMEs* when there are measurement and recognition differences (if an omitted topic constitutes a measurement and recognition difference).

- 43 In general, EFRAG suggests that the IASB better explains the exceptions included in its proposals and checks the completeness of the exceptions to be explained.

Reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities

- 44 EFRAG has not identified any practical issues related to the question included in the ED on requiring a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.
- 45 However, EFRAG suggests that the IASB performs further research to determine cost-benefit considerations for requiring such information at subsidiary level.

Other exceptions: Improvements to disclosure requirements in IFRS Standards

- 46 Please see paragraph 34 above on the principles for developing disclosures.

Other exceptions: Disclosure objectives

- 47 EFRAG agrees that the 'disclosure objectives' included in IFRS Standards are less likely to pass the cost-benefit test for subsidiaries without public accountability than for companies(parent) traded in a public market.
- 48 Nonetheless, the IASB should consider the interaction between its Exposure Draft on reduced disclosures for subsidiaries (a project where the emphasis is put on having a list of simplified disclosures for subsidiaries) with the Exposure Draft *Disclosure Requirements in IFRS Standards A Pilot Approach* (project where the emphasis is put on defining the disclosure objectives and not on the list of disclosures). For example, EFRAG notes that the draft Standard could move away from IFRS Standards more than intended, if the IASB does not consider how to conceptually align the two approaches.
- 49 In addition, EFRAG suggests that the IASB considers elaborating, from a conceptual perspective, how the notion of public accountability impacts the level of disclosures needed.

Question 5 - Disclosure requirements about transition to other IFRS Standards

Question 5

Any disclosure requirements specified in an IFRS Standard or an amendment to an IFRS Standard about the entity's transition to that Standard or amended Standard would remain applicable to an entity that applies the Standard.

Paragraphs BC57–BC59 of the Basis for Conclusions explain the IASB's reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what approach would you suggest and why?

EFRAG's response

- 50 EFRAG welcomes that disclosure requirements for transition provisions of new and amended IFRS Standards would have to be applied by subsidiaries without public accountability that elect to apply the reduced-disclosure IFRS Standard.
- 51 EFRAG also welcomes paragraph 5 of the ED which clearly states that any disclosure requirements specified in a new or amended IFRS Standard about the entity's transition to that Standard would remain applicable, even if these disclosures are not inside the reduced-disclosure IFRS Standard itself (but still required if not listed in appendix A).
- 52 EFRAG considers that such an approach provides a relief from unnecessary overlaps between the reduced-disclosure IFRS Standard and other IFRS Standards on provisions related to transition. Particularly, when considering that transition requirements would not be simplified for entities within the scope of the project (i.e., the transition requirements would be the same).
- 53 However, EFRAG recommends that the IASB considers, when developing a new or amended IFRS Standard, whether all transition disclosure requirements to this new or amended IFRS Standard would remain relevant for the entities within the scope of the proposed draft Standard and whether any relief regarding the transition disclosures would be appropriate.

Question 6 - Disclosure requirements about insurance contracts

Question 6

The draft Standard does not propose to reduce the disclosure requirements of IFRS 17 Insurance Contracts. Hence an entity that applies the Standard and applies IFRS 17 is required to apply the disclosure requirements in IFRS 17. Paragraphs BC61–BC64 of the Basis for Conclusions explain the IASB's reasons for not proposing any reduction to the disclosure requirements in IFRS 17.

- (a) Do you agree that the draft Standard should not include reduced disclosure requirements for insurance contracts within the scope of IFRS 17? Why or why not? If you disagree, from which of the disclosure requirements in IFRS 17 should an entity that applies the Standard be exempt? Please explain why an entity applying the Standard should be exempt from the suggested disclosure requirements.
- (b) Are you aware of entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the draft Standard? If so, please say whether such

entities are common in your jurisdiction, and why they are not considered to be publicly accountable.

EFRAG's response

Question (a) on whether the draft Standard should include reduced disclosure requirements for insurance contracts within the scope of IFRS 17

- 54 EFRAG acknowledges the IASB's arguments included in paragraph BC64 of the Basis for Conclusions for not proposing the reduced disclosure requirements for insurance contracts. However, EFRAG considers that they are not compelling as they can be applied to disclosure requirements of any recently published Standard which is not yet effective.
- 55 For example, in EFRAG's view, the arguments in paragraph BC64(d) of the Basis for Conclusions about the needs of regulators with reference to IFRS 17 are not convincing, as insurance undertakings already comply with the strict rules-based regulatory requirements set up in their related jurisdictions to respond to the regulators' information needs.
- 56 EFRAG also questions the IASB's arguments in paragraph BC64(b) of the Basis for Conclusions and notes that if the IFRS 17 disclosures would be reduced after the standard has been implemented, it will not result in any benefits and cost savings for preparers as all the work for implementation has already been done (although it will only apply to a narrow population of insurance entities which will apply the future reduced disclosure IFRS Standard for the first time without having already transitioned to IFRS 17 in 2023. For example, entities that issue insurance contracts and decide to move from local GAAP to IFRS Standard after 1 January 2023).
- 57 EFRAG notes that the *IFRS for SMEs* Standard does not contain any provisions for accounting for insurance contracts and considers the disclosure requirements of IFRS 17 very demanding from quantitative and qualitative point of view as they were developed for the large publicly accountable insurance companies. EFRAG is of view that for the entity without public accountability, no matter how rare these entities are, complying with a full set of disclosure requirements on IFRS 17 would result in undue costs and efforts and will bring no or little benefit to the users of their financial statements.
- 58 In addition, requiring the full set of IFRS 17 disclosures could discourage subsidiaries from transitioning to IFRS Standards if such disclosures are not required for group reporting (i.e., if the group would not report on insurance activities due to materiality considerations).
- 59 EFRAG notes that the IASB's approach to keep the full disclosure requirements of IFRS 17, which is not mentioned as an exception (see Question 4 for details), may also create a precedence that entities have to first apply the full set of disclosures every time a new or amended IFRS Standard is published.
- 60 EFRAG highlights that this question becomes particularly important if the scope of the ED is extended to include the non-listed insurance undertakings.
- 61 Therefore, EFRAG recommends the IASB to consider developing a reduced set of disclosure requirements for IFRS 17 as part of this project and before finalising this draft Standard and to engage in an outreach with the constituents to determine which disclosure requirements could be reduced.

Question (b) on entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the draft Standard

- 62 As a result of its consultation, EFRAG has been made aware about some entities that issue insurance contracts in Europe and could be in the scope of the draft standard (e.g. captive insurers; life insurers which do not hold assets for their

customers (i.e., in fiduciary capacity), but hold them as their own investments at their risk; non-financial corporates that are not insurance companies but issue insurance contracts within the scope of IFRS 17 and the protection and indemnity insurance clubs).

Question 7 - Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Question 7

Paragraphs 23–30 of the draft Standard propose reduced disclosure requirements that apply to an entity that is preparing its first IFRS financial statements and has elected to apply the Standard when preparing those financial statements.

If a first-time adopter of IFRS Standards elected to apply the draft Standard, the entity would:

- apply IFRS 1, except for the disclosure requirements in IFRS 1 listed in paragraph A1(a) of Appendix A of the draft Standard; and
- apply the disclosure requirements in paragraphs 23–30 of the draft Standard.

This approach is consistent with the IASB's proposals on how the draft Standard would interact with other IFRS Standards. However, IFRS 1 differs from other IFRS Standards—IFRS 1 applies only when an entity first adopts IFRS Standards and sets out how a first-time adopter of IFRS Standards should make that transition.

- (a) Do you agree with including reduced disclosure requirements for IFRS 1 in the draft Standard rather than leaving the disclosure requirements in IFRS 1?

Paragraphs 12–14 of the draft Standard set out the relationship between the draft Standard and IFRS 1.

- (b) Do you agree with the proposals in paragraphs 12–14 of the draft Standard? Why or why not? If not, what suggestions do you have and why?

EFrag's response

Interaction with IFRS 1

- 63 EFRAG agrees with the IASB's approach that when applying IFRS Standards for the first time and simultaneously electing to apply the reduced-disclosure IFRS Standard, a subsidiary should apply the disclosure requirements proposed in the ED, which would be based on Section 35 of *IFRS for SMEs* but adapted in accordance with the IASB's adaptation principles. EFRAG believes the disclosure requirements of the reduced-disclosure IFRS Standard in relation to the subsidiary's transition to and the recognition and measurement requirements included in the reduced-disclosure IFRS Standard to be sufficient.
- 64 EFRAG also welcomes the IASB's clarification in paragraph 13 of the ED that electing or revoking an election to apply the draft Standard does not result in an entity meeting the definition of a first-time adopter of IFRS Standards in IFRS 1.
- 65 Nonetheless, it may be useful to clarify in the main body of the ED (as the IASB has done for IFRS 1) that the use of reduced-disclosure IFRS is not considered a change in an accounting policy in accordance with IAS 8 as it is related to the use of an optional IFRS Standard (like IAS 34 *Interim Financial Reporting*). If considered an accounting policy choice, an entity shall change an accounting policy only if the change is required by an IFRS or results in the financial statements providing reliable and more relevant information. Therefore, the application of the Standard would likely be impossible for companies that were applying full IFRS before.

- 66 EFRAG also points out the risk of structuring opportunities if the transition to IFRS Standards is done in two stages: first, the entity applies the provisions of this ED on first-time adoption of IFRS Standards and a year after decides to apply the full IFRS Standards. Such an approach would permit an entity to avoid providing the full disclosures on first-time adoption of IFRS Standards. EFRAG considers that the IASB should provide guidance on this issue.

Question 8 - The proposed disclosure requirements

Question 8

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. In addition to your answers to Questions 4 to 7:

- (a) Do you agree with those proposals? Why or why not? If not, which proposals do you disagree with and why?
- (b) Do you recommend any further reduction in the disclosure requirements for an entity that applies the Standard? If so, which of the proposed disclosure requirements should be excluded from the Standard and why?
- (c) Do you recommend any additional disclosure requirements for an entity that applies the Standard? If so, which disclosure requirements from other IFRS Standards should be included in the Standard and why?

EFRAG's response

Proposed disclosure requirements for each related IFRS Standard

- 67 EFRAG highlights that the assessment of users' needs in terms of disclosures (i.e., whether the IASB's proposed disclosures are sufficient) is difficult and subjective.
- 68 In addition, EFRAG's outreach activities have shown that it is particularly challenging, compared to other projects, to effectively engage with users and assess the completeness/usefulness of the proposed disclosure, as the ED is not accompanied by a comparison showing which information in full IFRS Standards would be lost.

IFRS 1 First-time Adoption of International Financial Reporting Standards

- 69 EFRAG notes that the disclosure requirements in paragraph 25(a) of the ED do not exist in IFRS 1. Although such disclosures may be useful, the IASB's approach seems to result in having subsidiaries being required to provide more disclosures than in full IFRS.
- 70 In accordance with IFRS 1, one of the key principles is that an entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows.
- 71 Within the section 'Reconciliations', the ED refers to reconciliations linked to the statement of financial position and financial performance, but it is silent on the statement of cash flows.
- 72 For users of financial statements that are very focused on cash flows it may be an issue that the ED does not give emphasis that 'if an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows' (as mentioned in paragraph 25 of IFRS 1).

IFRS 2: Share-based Payment

- 73 In 2016 the IASB issued *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*, which introduced clarifications and

additional disclosures on share-based payment transactions with a net settlement feature for withholding tax obligations.

- 74 For example, paragraph 52 of IFRS 2 states that ‘if an entity has classified any share-based payment transactions as equity-settled, the entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee’s tax obligation when it is necessary to inform users about the future cash flow effects associated with the share-based payment arrangement’.
- 75 The ED does not reflect such improvements because when recognition and measurement requirements are the same, the IASB’s approach does not result in tailoring the *IFRS for SMEs* Standard for recent improvements made to IFRS Standards.
- 76 EFRAG questions whether such disclosures would be assessed as non-essential when considering the principles in paragraph BC157 of the *IFRS for SMEs* as these disclosures provide useful information on future cash flow effects associated with the share-based payment arrangement.

IFRS 3: Business Combinations

Primary reasons for the business combination

- 77 Users of financial statements usually find useful the information about the primary reasons for the business combination as in paragraph B64(d) of IFRS 3. Such information would not be costly and relevant for users of financial statements.

Business combinations not finalised at the end of the reporting period

- 78 If a business combination is not finalised at the end of the reporting period, users of financial statements usually find information about amounts recognised in the financial statements for the business combination that have been determined provisionally (as in paragraph B67(a) of IFRS 3). EFRAG questions whether such disclosures would be assessed as non-essential when considering the principles in paragraph BC157 of the Basis for Conclusions to the *IFRS for SMEs* Standard as there is a measurement uncertainty (i.e., provisional amounts are used for the items for which the accounting is incomplete).

Business combination achieved in stages

- 79 Finally, in a business combination achieved in stages, users often look for the information about the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination as in paragraph B64(p) of IFRS 3.

IFRS 6: Exploration for and Evaluation of Mineral Resources

- 80 Exploration and evaluation assets are quite significant in value and if a company is in this field of activities, it would most probably be the only activity it is engaged in.
- 81 This raises the question of whether full disclosures on IFRS 6 should be required, including the disclosures in paragraphs 23 and 24 of IFRS 6 (rather than simply require paragraph 25 of IFRS 6), which focus on disclosing:
- (a) information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources;
 - (b) accounting policies for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets; and
 - (c) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

IFRS 7: Financial Instruments: Disclosures

- 82 EFRAG highlights the importance of having disclosures on maturity analysis for derivatives and non-derivative financial liabilities that show the remaining contractual maturities (as required by paragraph 39 of IFRS 7) as these are useful for users of financial statements to assess the entity's liquidity and solvency.

IFRS 12: Disclosure of Interests in Other Entities

- 83 In the paragraphs below, EFRAG suggests that the IASB adds a number of disclosures for intermediate parents and/or subsidiaries that have significant investments. Thus, such disclosures would not have a significant impact on individual subsidiaries and would not affect most of the population in the scope of the ED.

Composition of a group

- 84 When a subsidiary is also a parent (e.g., a subsidiary in a conglomerate structured by type of business), users of financial statements tend to find useful disclosures that help them understand the composition of a group, as required in paragraph 10(a)(i) of IFRS 12, even if in a summarised way. For example, detailed information on subsidiaries that have non-controlling interests that are material to the reporting entity, including the name of the subsidiary ((as required by paragraph 12 of IFRS 12).

Consolidated and unconsolidated structured entities

- 85 Users of financial statements may find useful disclosures on consolidated and unconsolidated structured entities, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support) as in paragraph 14 of IFRS 12. In paragraph BC45 of the Basis for Conclusion, the IASB seems to conclude that analogous disclosures for investment entities would be useful and supported by paragraph BC157 (the exception was needed only for consistency purposes with non-investing entities).
- 86 Similarly, disclosures on any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary are also relevant to users (as in paragraphs 19F and 19D of IFRS 12).

Combined financial statements

- 87 EFRAG highlights that not including the disclosure requirements on combined financial statements from *IFRS for SMEs*, this project raises the wider issue of lack of disclosure requirements for combined financial statements in IFRS Standards. Although this type of financial statements is mentioned in the Conceptual Framework for Financial Reporting ("if a reporting entity comprises two or more entities that are not all linked by a parent-subsidiary relationship, the reporting entity's financial statements are referred to as 'combined financial statements.'") there is currently no guidance in IFRS Standards.

Disclosures on significant investments

- 88 EFRAG suggests that the IASB considers improving disclosures on significant investments as users are typically focused on the economic value of the investments, on the return on such investments and nature of an entity's relationship. For example:
- (a) an entity to disclose the name of each material joint arrangement or associate (as required by paragraph 21 of IFRS 12);
 - (b) an entity to disclose the nature of the entity's relationship with the joint arrangement or associate (as required by paragraph 21 of IFRS 12); and

- (c) disclosures on the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (as required by paragraph 21 of IFRS 12).

IFRS 14: Regulatory Deferral Accounts

- 89 EFRAG highlights that the *Rate-regulated Activities* ('RRA') project is already at the stage of Exposure Draft (issued in January 2021) and that the disclosure requirements in the ED are much more detailed than in IFRS 14 and would most probably need to be simplified to reflect the needs of entities within the scope of the project.
- 90 EFRAG recommends that the developments of the RRA project are closely monitored by the IASB staff. Should a final IFRS Standard on RRA be issued before the reduced-disclosure IFRS Standard, the provisions of this new RRA IFRS Standard, and not IFRS 14, should be analysed and included in the reduced-disclosure IFRS Standard. Particularly when considering that IFRS 14 has not been endorsed in the EU since it was deemed as a temporary standard offering an accounting option to companies that adopt IFRS for the first time and very few European companies would fall within its scope. Thus, if IFRS 14 is included EFRAG would have to consider the possibility of a carve-out.

IFRS 15: Revenue from Contracts with Customers

- 91 EFRAG suggests that the IASB includes a cross-reference to paragraph 124(a) of the ED (to ease its application) as disclosures on significant judgements, and changes in the judgements, made in applying IFRS 15 to the contracts that significantly affect the determination of the amount and timing of revenue from contracts with customers should be included (as in paragraph 123 of IFRS 15) are relevant for users to better understand any measurement uncertainty.

IFRS 16: Leases

Leases with variable payment

- 92 EFRAG considers that the disclosures (by lessees) on leases with variable payment (paragraph 100(e) of the ED) could be expanded by including the reference '*...variable lease payments (e.g., expenses relating to variable lease payments not included in the measurement of lease liabilities, ...*' or by including a separate line (as required for lessors in paragraph 106(e) of the ED) as it is relevant for users to assess future cash flows (similar to paragraph 53(e) of IFRS 16).

Sale and leaseback transactions

- 93 EFRAG considers that the disclosures required in paragraph 109 of the ED on sale and leaseback transactions: lessees and lessors could be expanded to mention information on "*and gains or losses arising from sale and leaseback transactions.*"

IAS 1: Presentation of Financial Statements

- 94 EFRAG suggests that the IASB adds disclosures on the nature of expenses (e.g., for material items and items already required by other standards) when an entity classifies expenses by function, including depreciation and amortisation expense and employee benefits expense, as required by paragraph 104 of IAS 1. Such information tends to be fundamental for users, as discussed with users in the *Primary Financial Statements* project.
- 95 Similarly, disclosures on the amounts of dividends proposed or declared before the financial statements were authorised for issue but not recognised as distribution to owners, and the related amount per share (as in paragraph 137(a) of IAS 1) are often important for users, as they are typically interested in disclosures about distributable dividends within a group.

IAS 12: Income Taxes

Relationship between tax expense (income) and accounting profit

- 96 EFRAG considers that the disclosures required by paragraph 147(c) of the ED could be presented in the form of a numerical reconciliation as required by paragraph 81(c) of IAS 12 when explaining the relationship between tax expense (income) and accounting profit (usually this reconciliation is highly valued by users) and take into account the guidance in paragraph 85 of IAS 12 on the most meaningful rate for users of financial statements.

Discontinued operations

- 97 EFRAG highlights that the disclosures on discontinued operations, as in paragraph 81(h) of IAS 12, are usually very relevant for users of financial statements. More specifically, disclosures on the tax expense relating to the gain or loss on discontinuance and the profit or loss from the ordinary activities of the discontinued operation for the period.

Temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements

- 98 EFRAG notes that when an entity has significant investments, the disclosures on the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, as in paragraph 81(f), are highly valued by users of financial statements.

Evidence of deferred tax asset

- 99 Finally, EFRAG suggests that the IASB also requires disclosures on evidence of deferred tax asset (DTA), as required in paragraph 82 of IAS 12. For users it is vital to have evidence that supports the recognition of DTA's, as this is a very subjective area.

IAS 19: Employee Benefits

- 100 To ensure consistency and comparability, EFRAG suggests that the IASB specifies in the reduced disclosure IFRS Standard how a subsidiary should quantify the principal actuarial assumptions used, as in paragraph 144 of IAS 19 (as an absolute percentage, and not just as a margin between different percentages and other variables).

IAS 27: Separate Financial Statements

- 101 Similar to the requested disclosures on IFRS 12 mentioned above, for separate financial statements, it would be useful to disclose a list of significant investments in subsidiaries, joint ventures and associates, including the name of those investees and their principal place of business. Also, it would be useful to disclose a proportion of the ownership interest held in those investees (as in paragraph 16 of IAS 27).

IAS 36 Impairment of assets

Calculation of unit's (group of units') recoverable amount

- 102 EFRAG is concerned that some disclosures will not be included. In particular:
- (a) the period over which management has projected cash flows based on financial budgets/forecasts approved by management;
 - (b) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/ forecasts; and
 - (c) the discount rate(s) applied to the cash flow projections.
- 103 This is because the period projected and the terminal growth rate have a significant impact on the calculation of unit's (group of units') recoverable amount.

- 104 For example, management may use over-optimistic assumptions on terminal growth rate or use long and unreliable forecasts (e.g., 20 years) to calculate the value in use.
- 105 The discount rate applied to the cash flow projections also provides highly relevant information to users of financial statements, in particular the risks specific to the asset for which the future cash flow estimates have not been adjusted.
- 106 Therefore, EFRAG considers that, with a simplified language, the following information could be required when calculating unit's (group of units') recoverable amount:
- (a) the period over which management has projected cash flows;
 - (b) the growth rate used to extrapolate cash flow projections; and
 - (c) the discount rate(s) applied to the cash flow projections.

Impairments and reversal of impairments

- 107 EFRAG highlights the importance of having detailed information about impairments and reversal of impairments, even when using a reduced disclosure IFRS Standard. For example, it is important to provide information at segment level when IFRS 8 is applied, the events and circumstances that led to the recognition or reversal of the impairment loss, etc. This is because, Section 27 *Impairment of Assets* requires limited disclosures on impairments (i.e., mainly the amounts).

Description of the cash-generating unit

- 108 EFRAG considers that paragraph 193 of the ED could be expanded to include a 'description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in IFRS 8)' as in paragraph 130(d) of IAS 36. Such information would not be costly and relevant for users of financial statements.

IAS 37: Provisions, Contingent Liabilities and Contingent Assets

- 109 EFRAG considers that paragraph 196(a) of the ED could be expanded to mention the increase during the period in the discounted amount arising from the passage of time, as in paragraph 84(e) of IAS 37.

Question 9 - Structure of the draft Standard

Question 9

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. These disclosure requirements are organised by IFRS Standard and would apply instead of the disclosure requirements in other IFRS Standards that are listed in Appendix A. Disclosure requirements that are not listed in Appendix A that remain applicable are generally indicated in the draft Standard by footnote to the relevant IFRS Standard heading. Paragraphs BC68–BC70 explain the structure of the draft Standard.

Do you agree with the structure of the draft Standard, including Appendix A which lists disclosure requirements in other IFRS Standards replaced by the disclosure requirements in the draft Standard? Why or why not? If not, what alternative would you suggest and why?

EFRAG's response

- 110 EFRAG acknowledges that when an entity elects to apply the IASB proposals on reduced-disclosure requirements, it would have to:

- (a) apply the proposed disclosure requirements included in the main body of the ED; and
 - (b) apply the disclosure requirements of other IFRS Standards which are set out in a footnote next to the subheading of the IFRS Standard to which they relate and which are not listed in appendix A.
- 111 Such an approach means that subsidiaries without public accountability have to apply not only the proposed disclosure requirements in the main body of the ED but also all the disclosure requirements of other IFRS Standards which are set out in a footnote next to the subheading of the IFRS Standard to which they relate.
- 112 EFRAG supports such an approach and highlights the importance of having an independent and stand-alone reduced-disclosure IFRS Standard that focuses on the disclosure needs of subsidiaries without public accountability. That is, a reduced-disclosure IFRS Standard that clearly identifies all the disclosure requirements that subsidiaries without public accountability need to comply to that it is simple for them to apply. EFRAG also highlights that the use of footnotes to indicate the disclosure requirements in IFRS Standards that remain applicable is a practical solution for some of the issues that arise if the IASB would incorporate all disclosure requirements in the main body of the proposed draft Standard (e.g., some disclosure requirements are embedded in paragraphs that include recognition, measurement or presentation requirements).
- 113 However, EFRAG acknowledges that there is support for incorporating all disclosure requirements (footnotes and Appendix A) in the main body of the proposed draft Standard. The IASB could further consider the feasibility of such an approach.
- 114 Finally, EFRAG highlights that in paragraph BC10 of the Basis for Conclusions, the IASB notes that establishing reduced disclosure requirements for subsidiaries that are SMEs would not prevent such subsidiaries from choosing to provide additional information. However, Appendix A may be seen as a list the disclosure requirements in other IFRS Standards that cannot be applied when an entity applies the IASB proposed reduced-disclosure requirements.

Appendix 2 - Overview of the use of options provided in the IAS Regulation (1606/2002) in the EU as at December 2018 - available at the European Commission website ([click here](#))

Type of company	Listed undertakings								Other undertakings																
	Annual financial statements								Consolidated financial statements								Annual financial statements								
	IFRS permitted				IFRS required				IFRS permitted		IFRS required						IFRS permitted				IFRS required				
	Financial			Non-financial	Financial			Non-financial	Financial	Non-financial	Financial			Non-financial	Financial			Non-financial	Financial			Non-financial			
Bank	Insurance	Other		Bank	Insurance	Other				Bank	Insurance	Other		Bank	Insurance	Other		Bank	Insurance	Other		Bank	Insurance	Other	
Austria								Yes																	
Belgium							Yes		Yes	Yes	Yes	Yes												Yes	
Bulgaria		Yes						Yes								Yes									
Cyprus						Yes					Yes													Yes	
Czech Republic						Yes		Yes								(1)									
Germany		(2)						Yes								(2)									
Denmark				(1)					Yes											Yes					
Estonia						Yes		Yes		Yes	Yes	Yes							Yes	Yes	Yes	Yes			
Greece						Yes		Yes		Yes	Yes	Yes	(5)					Yes	Yes	Yes	Yes		Yes		(5)
Spain								Yes				(3)													
Finland	Yes			Yes	Yes			Yes								(4)									
France								Yes																	
Croatia						Yes				Yes	Yes	Yes	(5)						(1)	Yes	Yes	Yes	Yes		(5)
Hungary						Yes		Yes							Yes	Yes	(1)	Yes			Yes				
Ireland		Yes						Yes							Yes										
Italy					Yes	(6)	Yes	Yes	Yes	Yes			(9)	Yes		Yes	Yes								(9)
Lithuania			Yes		Yes	Yes	Yes		Yes	Yes	Yes	Yes					Yes	Yes	Yes	Yes		Yes	Yes	Yes	
Luxembourg		Yes						Yes								Yes									
Latvia			Yes		Yes	Yes	Yes	(7)	Yes	Yes	Yes	Yes						Yes	Yes	Yes	Yes		Yes	Yes	
Malta						Yes		Yes		Yes	Yes	Yes	(8)					Yes	Yes	Yes	Yes		Yes	Yes	(8)
Netherlands		Yes						Yes								Yes									
Poland		Yes						(10) or (11)	Yes	Yes						(10) or (11)									
Portugal				(1)	Yes		(6)		Yes	Yes									(1)	Yes					
Romania						Yes		Yes		Yes		Yes							Yes				Yes		(5)
Sweden								Yes				(12)													
Slovenia				(6)	Yes	Yes		(1)		Yes	Yes							Yes	Yes	Yes	Yes	Yes	Yes		
Slovakia		Yes			Yes	(5)	Yes	(5)				Yes						Yes			Yes	(5)	Yes		(5)
United Kingdom		Yes						Yes								Yes									

Footnotes

- (1) If the consolidated financial statements are prepared in accordance with IFRS Standards
(2) Only in addition to financial statements prepared in accordance with National GAAPs
(3) Groups in which there is a listed undertaking
(4) If mandatory audit
(5) Public Interest entities

- (6) If no IFRS consolidated financial statements are published
(7) Issuers listed on the Baltic Main List
(8) Large and regulated entities
(9) Entities listed on a non regulated market
(10) Subsidiaries of a group in which parent or higher level parent prepares consolidated financial statements under IFRS

- (11) Entities having filed or intending to file for admission to public trading
(12) IFRS mandated by the Financial Supervisory Authority

Appendix 3 - Summarised answers to each question

Question 1 - Objective

EFRAG agrees with the proposed objective of specifying reduced disclosure requirements for the financial statements of subsidiaries that are in the scope of the project.

EFRAG considers that the IASB's proposals would have the benefit of allowing entities that are in the scope of the project to apply IFRS Standards (i.e., use the recognition and measurement requirements in IFRS Standards) with reduced disclosure requirements.

Question 2 - Scope

EFRAG recognises the benefits of and the support from its constituents for the IASB's proposals to permit eligible subsidiaries to apply IFRS Standards with reduced disclosure requirements.

European constituents asked for the IASB to consider widening the scope but they provided different suggestions, such as including (i) associates, joint ventures and joint operations; (ii) non-listed insurance companies that are subsidiaries; (iii) non-listed banks that are subsidiaries; (iv) ultimate parent entities for their separate financial statements; or (v) all entities without public accountability.

EFRAG acknowledges that there are potential benefits of a broader scope, nonetheless EFRAG also recognises that there is no consensus on whether and to what extent the scope should be widened. Therefore, any decision on the extension of the scope is likely to be challenging and controversial.

Considering this, EFRAG accepts that the IASB should proceed with its project and that a final IFRS Standard should be available to subsidiaries on an optional basis.

Nonetheless, EFRAG recommends that, before the issuance of a new IFRS Standard on reduced disclosures, the IASB clarifies the concept of holding assets in a fiduciary capacity (as insurers, for example, do not in general regard themselves as holding assets in a fiduciary capacity) and, therefore, explores the applicability of the ED to the insurance sector.

EFRAG also believes that the IASB should, in parallel to the finalisation of this project, assess the possibility of further extending the proposed benefits to other type of entities (associates, joint ventures, joint operations, non-listed banks that are subsidiaries, separate financial statements of ultimate parent entities and all entities without public accountability).

Furthermore, EFRAG notes that the IFRS for SMEs Standard is not endorsed in the EU and that defining the scope of application of a reduced disclosure standard is normally a critical legislative decision. In this context, the IASB's approach to the scope would provide a working environment for the standard, rather than a legal scope of application.

Finally, EFRAG highlights that the IASB's proposals in this project are likely to put pressure on the definition of 'available for public use' and 'public

accountability'. Considering this, EFRAG would welcome further application guidance in this area.

Question 3 - Developing the proposed disclosure requirements

EFRAG generally agrees with the IASB's approach of using the *IFRS for SMEs* Standard as the starting point.

EFRAG welcomes the IASB's proposal to consider the principles in paragraph BC157 of *IFRS for SMEs* when there is a need to tailor the disclosure requirements. However, EFRAG considers that the key principles proposed by the IASB in paragraph BC33 of the Basis for Conclusions should encompass cost-benefit considerations.

EFRAG also highlights the risks of not considering the existing disclosure requirements in IFRS Standards in the light of BC157 when there are no recognition and measurement differences between *IFRS for SMEs* and IFRS Standards but there are differences in timing between the two.

Question 4 - Exceptions to the approach

EFRAG is concerned that in some cases the IASB's reasoning for making the exceptions is not entirely clear, making them complex to understand. In addition, EFRAG is also concerned that the list of exceptions in paragraph BC40 of the Basis for Conclusion seems to be incomplete.

In addition, EFRAG suggests two additional aspects that the IASB should consider: (i) the interaction between its Exposure Draft on reduced disclosures for subsidiaries (a project where the emphasis is put on having a list of simplified disclosures for subsidiaries) with the Exposure Draft Disclosure Requirements in IFRS Standards - A Pilot Approach (where the emphasis is put on defining the disclosure objectives and not on the list of disclosures) and (ii) elaborating from a conceptual perspective how the notion of public accountability impacts the level of disclosures needed.

Question 5 - Disclosure requirements about transition to other IFRS Standards

EFRAG welcomes that disclosure requirements for transition provisions of new and amended IFRS Standards would have to be applied by subsidiaries without public accountability that elect to apply the reduced-disclosure IFRS Standard.

EFRAG also welcomes paragraph 5 of the ED which clearly states that any disclosure requirements specified in a new or amended IFRS Standard about the entity's transition to that Standard would remain applicable, even if these disclosures are not inside the reduced-disclosure IFRS Standard itself.

Question 6 - Disclosure requirements about insurance contracts

EFRAG acknowledges the IASB's arguments included in paragraph BC64 of the Basis for Conclusions for not proposing the reduced disclosure requirements for insurance contracts. However, EFRAG considers that they are not compelling

and that the application a full set of disclosure requirements for IFRS 17 might result in undue costs and efforts and bring no or little benefit to the users of financial statements.

Therefore, EFRAG recommends the IASB to consider developing a reduced set of disclosure requirements for IFRS 17 and to engage in an outreach with the constituents to determine which disclosure requirements could be reduced before issuing a final IFRS Standard.

Question 7 - Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*

EFRAG agrees with the IASB's approach that when applying IFRS Standards for the first time and simultaneously electing to apply the reduced-disclosure IFRS Standard, a subsidiary should apply the disclosure requirements proposed in the ED. EFRAG also welcomes the IASB's clarification in paragraph 13 of the ED on the interaction with IFRS 1.

Nonetheless, it may be useful to clarify in the main body of the ED that the use the of reduced-disclosure IFRS is not considered being a change in an accounting policy in accordance with IAS 8.

Question 8 - The proposed disclosure requirements

EFRAG highlights that the assessment of users' needs in terms of disclosures (i.e., whether the IASB's proposed disclosures are sufficient) is difficult and subjective.

Nonetheless, EFRAG suggests that the IASB adds a number of disclosures identified below as they are relevant for users of financial statements and would not increase significantly the costs for preparers.

Question 9 - Structure of the draft Standard

EFRAG supports the IASB's approach and highlights the importance of having an independent and stand-alone reduced-disclosure IFRS Standard that focuses on the disclosure needs of subsidiaries without public accountability. That is, a reduced-disclosure IFRS Standard that clearly identifies all the disclosure requirements that subsidiaries without public accountability need to comply so that it is simple for them to apply.

However, EFRAG acknowledges that there is support for incorporating all disclosure requirements (footnotes and Appendix A) in the main body of the proposed draft Standard. The IASB should further consider the feasibility of such an approach.